

**SENATE CONCURRENT
RESOLUTION No. 67**

STATE OF NEW JERSEY

219th LEGISLATURE

INTRODUCED FEBRUARY 13, 2020

Sponsored by:

Senator SHIRLEY K. TURNER

District 15 (Hunterdon and Mercer)

SYNOPSIS

Urges Congress to enact “Stop Corporate Inversions Act of 2019.”

CURRENT VERSION OF TEXT

As introduced.



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1 **A CONCURRENT RESOLUTION** respectfully urging the President and
2 Congress to enact the “Stop Corporate Inversions Act of 2019.”
3
4 **WHEREAS**, Although companies merge with, acquire or are acquired
5 by foreign companies for any number of strategic reasons, a recent
6 surge in the number of corporations that have expatriated, or moved
7 their tax domicile overseas in order to reduce their U.S. tax liability
8 has resulted in public outrage, and Congressional and Presidential
9 proposals; and
10 **WHEREAS**, When a U.S. corporation combines with a smaller foreign
11 company and effectively becomes a subsidiary of a foreign-based
12 parent as a result, it is referred to in tax parlance as an “inversion;”
13 and
14 **WHEREAS**, The domestic income of U.S. corporations is subject to
15 federal income taxation, as is foreign-source income when it is
16 repatriated to the U.S. through dividends; and
17 **WHEREAS**, Most other countries tax only the domestic incomes of
18 their domestic companies, and low corporate tax rates in other
19 countries incentivize some companies to move their headquarters
20 overseas for the tax advantages; and
21 **WHEREAS**, Section 7874 of the federal Internal Revenue Code (26
22 U.S.C. s.7874) enacted in 2004 following a number of U.S.
23 corporate expatriations, treats an inverted foreign parent as a
24 domestic corporation for tax purposes if at least 80 percent of the
25 domestic entity’s stockholders are stockholders of the new foreign
26 parent, or alternatively, if at least 60 percent but less than 80
27 percent of the stockholders of the former entity are stockholders of
28 the new foreign parent, the foreign parent may be subject to certain
29 adverse tax consequences including an excise tax on certain
30 executive compensation and the disallowance of net operating
31 losses against inversion gain; and
32 **WHEREAS**, The provisions of section 7874 have been used by certain
33 corporations to change tax domicile without any corresponding
34 change in the location of production, employment, sales,
35 management, or ownership; and
36 **WHEREAS**, The potential revenue loss to the U.S. Treasury due to
37 inversions is estimated at almost \$20 billion over the next decade,
38 with some estimating the loss will be even greater; and
39 **WHEREAS**, Among the corporations that have recently undergone
40 inversions, or that have expressed an interest in doing so, are
41 multiple pharmaceutical firms and a large drugstore chain, for
42 whom receipts from the U.S. government and taxpayers in the form
43 of Medicaid and Medicare are likely considerable; and
44 **WHEREAS**, Currently pending in Congress, the “Stop Corporate
45 Inversions Act of 2019” modifies section 7874 of the federal
46 Internal Revenue Code so that an inverted foreign parent is treated
47 as a domestic company for tax purposes if more than 50 percent of
48 its stock is held by shareholders of the former domestic corporation,

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1 or if the affiliated group that includes the foreign corporation has
2 significant domestic business activities in the U.S. and is primarily
3 managed and controlled in the U.S.; and

4 **WHEREAS**, The pending legislation would have effect retroactive to
5 May 8, 2014 regardless of the date of enactment so that the several
6 corporations that are currently negotiating deals with the goal of
7 inverting are put on notice; and

8 **WHEREAS**, Domestic corporations enjoy the myriad benefits of the
9 U.S., including its laws, security, capital markets, research and
10 development, often benefit from government contracts or subsidies
11 supported by U.S. taxpayers, and should be prevented from
12 avoiding taxation simply by changing their tax domicile without
13 any corresponding geographic shift in operations, employment,
14 management, or ownership; now, therefore,

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16 **BE IT RESOLVED** by the Senate of the State of New Jersey (the
17 General Assembly concurring):

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19 1. The Legislature of New Jersey respectfully urges the
20 President and Congress to enact the “Stop Corporate Inversions Act
21 of 2019,” S. 2140, to prevent further opportunistic corporate
22 expatriations that deplete the U.S. Treasury, harming the economy
23 and American families in the process.

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25 2. Copies of this resolution, as filed with the Secretary of State,
26 shall be transmitted by the Clerk of the General Assembly or the
27 Secretary of the Senate to the President of the United States, the
28 Majority and Minority Leaders of the United States Senate, the
29 Speaker and Minority Leader of the United States House of
30 Representatives, and every member of Congress elected from this
31 State.

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34 STATEMENT

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36 This resolution respectfully urges the President and Congress to
37 enact the “Stop Corporate Inversions Act of 2019,” which is
38 pending in Congress as S. 2140. Inversion is a type of restructuring
39 in which a U.S. corporation acquires or merges with a foreign
40 company, and as a result, effectively becomes a subsidiary of a
41 foreign-based company. Often, the location of production,
42 employees, sales, and management is no different after the
43 inversion, and there is continuity of stock ownership. In many
44 cases, reduced U.S. tax liability is the primary motive for the
45 transaction. The potential loss of revenue to the U.S. due to
46 inversions is estimated at nearly \$20 billion over the next 10 years.

47 Currently, federal Internal Revenue Code section 7874 addresses
48 inversions and sets out tests under which a foreign parent

1 corporation may be deemed a domestic corporation for tax
2 purposes, or under which a foreign parent corporation may be
3 subject to certain adverse tax consequences. These tests hinge on
4 the percentage of stockholders of the former U.S. company that
5 continue to be stockholders in the new foreign company, and have
6 been strategically used by companies as tax loopholes.

7 The “Stop Corporate Inversions Act of 2019” is currently
8 pending in Congress and treats a new foreign parent as a domestic
9 corporation if more than 50 percent of its stock is held by
10 shareholders of the former domestic corporation, or if the affiliated
11 group that includes the foreign corporation has significant domestic
12 business activities in the U.S. and is primarily managed and
13 controlled in the U.S. By expanding the definition of inversion and
14 therefore, making it less advantageous for a corporation to avoid
15 U.S. taxation by simply changing its tax home without any
16 corresponding change in the location of operations, ownership,
17 sales, or management, this legislation attempts to close a loophole
18 that has been exploited at the expense of the U.S. Treasury and
19 taxpayers. In order to stop opportunistic inversions that are done
20 exclusively to avoid or minimize taxation, it is respectfully urged
21 that the “Stop Corporate Inversions Act of 2019” be enacted.